3: Simutis S-4 (no date) 1942 RB5 Lithuanians RB5

Chapter V

THE FINANCE OF LITHUANIA

000 The financial aspect of Lithuania's reconstruction after 1918 involves a discussion of her currency, her state finance, and her public debt.

CURRENCY

436 Up to the time of the World War of 1914–18, Russian ruble notes circulated in Lithuania. As early as 1915, when the first German troops entered Lithuania, a decree was proclaimed which made German marks equally acceptable with the Russian rubles. (Exchange rate: 2.16 marks for 1 gold ruble.) [1]

453 436 On April 17, 1915, by special decree, an institution under the name Darlehnkasse Ost (Loan Bank of the East) was created and made a special department of Ostbank für Handel und Gewerbe. The main function of this bank was to issue *Obost* rubles [2] and to serve as a state bank in the occupied region. The official exchange rate of the *Obost* rubles issued by the Darlehnkasse Ost was as follows: one *Obost* ruble equaled one Russian ruble or two German (or *Obost*) marks. By a decree of August 6, 1916, the German administration promised to redeem *Obost* rubles with genuine

[1] *Lietuvos Bankas, First Decade, 1922–1932*, Kaunas, 1932, p. 2.

[2] One *Obost* ruble equaled two *Obost* marks, one bank note having both inscriptions.

3: Simutis S-4 (no date) 1942 RB5 Lithuanians RB5

Russian rubles put into circulation by Darlehnkasse Ost. But on March 30, 1917, this promise was retracted and redemption by German marks was promised at the rate of two marks for one ruble.[3]

After the declaration of independence, February 16, 1918, because of unsettled conditions Lithuania was unable quickly to introduce her own bank notes. The Provisional Government signed with the Darlehnkasse Ost an agreement by which the notes were to remain in circulation until a Lithuanian bank of issue could be organized. The sums in circulation at that time, as estimated by Professor Rimka, are shown in Table 47.

TABLE 47

GERMAN OBOST NOTES IN CIRCULATION
1917–22

YEAR	NOTES IN CIRCULATION (*Millions of Obost marks*)	VALUE IN LITAS [a] (*Millions*)
1917	125.75	186.77
1918 (March 31)	165.65	327.30
1918 (Dec. 31)	290.90	363.62
1920 (July)	546.80	138.50
1921 (July)	779.80	101.70
1922 (July)	2,000.00	63.00
1922 (Sept.)	3,500.00	17.00

[a] One litas equals 0.150462 grams fine gold.

It may be observed that the number of notes in circulation increased very rapidly while their value in litas decreased. In September, 1922, the total of notes in circulation was more than ten times greater than on December 31, 1918, while at the same time their value in litas was only one

[3] *Ibid.*

3: Simutis S-4 (no date) 1942 RB5 Lithuanians RB5

436 twenty-first as great. In January, 1919, the rate of exchange was 8.27 marks to the dollar, while one year later, in February, 1920, it was 98.994 marks, and in the beginning of 1922, 200 marks. On October 1, 1922, the day redemption of the *Obost* marks commenced, one dollar equaled 1,650 marks; on October 2, 1,815 marks. Russian rubles were redeemed on October 1, 1922, at 0.004 litas.[4]

453 A special law for the establishment of Lietuvos Bankas (the Bank of Lithuania) was passed on August 11, 1922.[5] The financial basis of the bank is 12,000,000 litas capital stock consisting of 120,000 shares of 100 litas par value [656] each. Although Lietuvos Bankas, before Soviet occupation, was a private enterprise in its organization, it was under government control and the general director was appointed by the president of the republic upon recommendation of the Council of Ministers. The Law of Establishment of the Lietuvos Bankas grants a special concession to permit the issuance of notes for twenty years, which period may be prolonged by law.

436 652 648 With the first issue of litas notes on October 1, 1922, the redemption of the *Obost* marks at the market exchange rate was begun. The Russian rubles at that time were almost worthless, and the value of *Obost* marks was just a fraction of the original value. This caused a great loss to the population of Lithuania, wiping out everybody's savings and creating generally chaotic credit conditions. There is no question but that Germany was responsible for the inflation and loss in the value of *Obost* marks and that Lithuania had the right to demand reparations. Negotiations for that purpose were

[4] Kazys Sruoga, *Die Wirtschaft der Republik Litauen und ihre Notenemission*, Kaunas, 1930, pp. 15–18.

[5] *Lietuvos Bankas, First Decade, 1922–1932*, Kaunas, 1932, pp. 10–14; *V.Z. Nr. 199, par. 1347.*

3: Simutis S-4 (no date) 1942 RB5 Lithuanians RB5

started in March, 1922, in Kaunas. Reparation was sought for the compulsory introduction of *Obost* marks and the use of issuance rights from August, 1916, until November, 1919, when the German army finally withdrew. The loss to Lithuania was estimated at 5,383 million marks, which sum was demanded by the Lithuanian delegation. Due to the fact that the Germans refused to recognize these demands, negotiations were discontinued. They were resumed in Berlin in May, 1923.[6] These negotiations resulted in a treaty concluded on May 31, 1923, of which the first paragraph says: "Both contracting parties agree not to raise any claims against each other, originating from events of the World War." [7]

After three months of operation of Lietuvos Bankas—that is, on December 31, 1922—there were 30.38 million litas in circulation. The coverage in gold of the notes in circulation accounted for 50 percent and that in gold and foreign exchange for 109.1 percent. The amount of litas in circulation grew, while the coverage in gold decreased somewhat, but it was never less than the one-third prescribed by law. Thus on December 31, 1923, there were 60.07 million litas in circulation; in 1924, 92.98; in 1925, 81.92; in 1926, 86.79; and in 1927, 96.61.[8]

The issue activities of Lietuvos Bankas in later years are indicated by Table 48. At the end of 1938 the notes in circulation amounted to 141.70 million litas, exceeding the previous all-time high of 1930, while in April, 1939, it reached 181.65 millions, a new all-time peak. The coverage in gold

[6] A. Moravskis, *Lietuvos Finansai, Pinigai, kreditas ir bankai* Lietuvoje pries kara ir dabar, II dalis. (The Finance of Lithuania: Money, Credit and Banking in Lithuania before the War and at Present. Part II), Kaunas, 1925, pp. 33–35.

[7] Dailide, *op. cit.*, p. 199; *V.Z. Nr. 173, par. 1197.*

[8] *Lietuvos Bankas Bulletin*, Feb. 19, 1932, p. 18.

3: Simutis S-4 (no date) 1942 RB5 Lithuanians RB5

TABLE 48

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436

THE ISSUE ACTIVITIES OF LIETUVOS BANKAS
1928–39

YEAR ENDING DEC. 31	BANK NOTES IN CIRCULATION (*Million litas*)	GOLD RESERVE (*Million litas*)	FOREIGN BILLS (*Million litas*)	PERCENTAGE OF COVERAGE IN GOLD AND FOREIGN BILLS
1928	84.77	34.27	43.62	91.9
1929	94.83	35.08	78.48	119.8
1930	117.16	39.39	86.32	107.3
1931	108.95	50.14	33.17	76.5
1932	96.21	49.07	15.96	67.6
1933	89.92	52.00	15.34	76.8
1934	88.24	52.14	8.38	68.6
1935	103.50	36.14	9.91	44.5
1936	110.35	73.10	4.08	69.9
1937	116.56	79.04	1.87	69.4
1938	141.70	64.75	4.83	49.1
1939	165.93	57.71	2.50	37.1

and foreign bills was comparatively high, being 49.1 percent.

436 The highest number of notes in circulation and the lowest coverage were reached in November, 1939. This situation was largely due to the disturbed economic conditions in Lithuania in that year. It will be recalled that in March, 1939, Lithuania was forced to give up her only port, Klaipeda. This transaction was executed in great haste, under the pressure of the German war machine, as a result of which it became necessary to support and furnish with food, shelter, and work about 15,000 refugees.

[167] A few months later over 100,000 refugees from Poland poured into Lithuania, as a result of the war between Germany and Poland. Undoubtedly this circumstance caused a great drain on gold and foreign exchange reserves.

3: Simutis S-4 (no date) 1942 RB5 Lithuanians RB5

436

The litas was never devalued, and it held its original gold parity until Soviet occupation on June 15, 1940. Shortly after occupation the financial structure of Lithuania was destroyed entirely. The litas was substit ed by the ruble. All savings accounts over 1,000 litas (appro mately $165.00) were confiscated. Though the purchasing value of the Soviet ruble was much less than that of the litas, nevertheless the litas officially was rated at 90 kopeks (a kopek equals one-hundredth of a ruble). The Germans who replaced the Russians set the official exchange rate at 50 pfennigs, or half a German mark, to a ruble.

STATE FINANCE

652

The state finance and the economic policy of the republic of Lithuania were guided by the minister of finance. In 1923, the first year for which statistics are available, the revenue amounted to 166.30 million litas against expenditures of 166 million litas.[9] The following year's revenue increased to 235.79 million litas and expenditures to 232.32, leaving a favorable balance of 3.47 million litas. The highest balance was gained in 1929 when the revenues of 293.79 million litas exceeded expenditures by 26.10 million litas. But in 1931 and 1932 expenditures exceeded revenue. In 1931 the total income amounted to 315.09 million litas, expenditures were 335.30 million litas, and the deficit was thus 20.21 million litas. In 1932 the deficit was somewhat smaller: 12.40 million litas. The budget of 1938 was practically balanced, the revenue amounting to 366.48 million litas, while the expenditures totaled 366.49 million litas. In 1939 revenues amounted to 361.78 and expenditures to 356.54 million litas. The growth of the budget during the years of independence was

[9] C.S.B., volume for 1927.

Appendix F

436

Foreign Exchange Quotations in Kaunas

DATE	NEW YORK	LONDON	BERLIN	PARIS	RIGA
	Litas to $1.00	*Litas to £1*	*Litas to 100 Rm.*	*Litas to 100 Frs.*	*Litas to 100 Lats*
Jan., 1928	10.06	49.00	240.00	39.41	194.45
Jan., 1929	10.07	48.80	239.69	39.53	194.00
Jan., 1930	10.00	48.74	238.90	39.34	193.07
Jan., 1931	10.01	48.60	238.11	39.27	192.80
Jan., 1932	10.02	35.16	238.91	39.51	189.00
Jan., 1933	10.04	33.74	238.54	39.25	.....
Jan., 1934	6.42	32.20	240.22	39.65	.....
Jan., 1935	5.99	29.24	240.00	39.37	.....
Jan., 1936	5.93	29.39	239.34	39.29	193.48
Jan., 1937	5.95	29.14	238.20	27.72	114.91
Jan., 1938	5.93	29.66	238.20	19.87	117.20
Jan., 1939	5.95	27.82	238.20	15.72	110.11
Oct., 1939	6.01	24.11	238.20	13.68	112.54

Note: The litas, the monetary unit of Lithuania, equals 100 centas and contains 0.150463 grams of fine gold. Its circulation in Lithuania was abolished by the Soviet government after the occupation in 1940.

which is attributable to the intervention of the Government on behalf of agricultural credits. 452 453

In connexion with the consolidation of the credit situation and thanks to the initiative of the Lietuvos Bankas, private discount has also materially decreased. In 1929 it still fluctuated between 14—18%. At the end of 1930 the banks decided that the rate of interest should not rise above 12%; while today it amounts to 8%. Moreover, in accordance with a legal enactment (Government Gazette No. 432) private discount may not exceed the official bank rate by more than three points. 652

On the basis of the above cited balance items of the separate categories of the credit institutions, we may affirm that the overwhelming portion of the credits pertains to agriculture; the credits for trade and industry amount to approximately one-third of the total sum, and are without exception short-term. In view of this and in connexion with the rapid growth of industry, the necessity is ever more and more being felt for a banking institution which, through the provision of long-term credits, would promote the investment activity of industry.

* * *

The consolidation of the credit situation is also characterized by the statistics of bills of exchange protests and the legal compulsory auction sales. The following comparative table embodies the data for the last eight years: 436 ●

	1930	1931	1932	1933	1934	1935	1936	1937
Total bills of exchange in circulation, in million litas	708.24	760.52	546.52	463.21	490.81	423.40	410.43	472.08
Amount of protested bills, in million litas	40.06	67.51	71.74	39.34	32.48	23.54	13.97	12.98
Percentage share of protests in sum of bill circulation	5.7	8.9	13.1	8.5	6.6	5.6	3.4	2.7
Number of compulsory auction sales of movable property	636	794	1 961	3 104	2 768	2 471	1 621	1 084
Amount of debts in million litas	1.48	1.83	3.33	3.81	2.86	3.83	2.33	1.06
Percentage of debt cover	27	35	27	27	22	14	19	27

The number of bill protests, both according to separate items and the total value and according to the percentage ratio

436 to the total circulation, reached the lowest level in 1937 since the introduction of the litas currency in 1922. The reduction of bill circulation (the quoted figures relate to the number of lists sold) in comparison with 1930—32, is due, on the one hand, to the expansion of mortgage credits (we have seen above that the total sum of loans in 1937 already exceeded the pre-crisis level), and, on the other hand, to the consolidation of the economic situation and the enhanced liquidity of the money market, under the influence of which payments in cash are more frequently effected in trade transactions than formerly. The number of the legal compulsory auction sales of movable property, which reached their peak level in 1933, has since then receded by two-thirds. Although it still stands above the level of the years 1930—31, the position is nevertheless to be designated as more favourable because the peak of the debts for the recovery of which legal proceedings have been instituted stands at approximately one-third below the level of the pre-crisis period.

6. The Insurance Companies.

456 At the present time there are in Lithuania 6 insurance institutions, i. e. the State Insurance Office, 3 insurance joint-stock companies, and 2 mutual insurance companies. The State Insurance Office was founded in 1921; it is subordinate to the Ministry of Finance. In 1930 its capital-stock was fixed by law at 800 000 litas. The three joint-stock companies are:

(a) The „Lietuvos Lloydas", founded in 1922, with a present capital-stock of 800 000 litas.

(b) The „Lietuva", also founded in 1922, with a capital-stock of 600 000 litas.

(c) The Memel Insurance Joint-stock Company, founded in 1923 (capital-stock 10 000 litas).

The „First Mutual Insurance Company of Lithuanian Economy" was founded in 1921; the second mutual insurance company „Kooperacija" in 1925.

The most important data compiled from the balance-sheets of the above enumerated insurance establishments illustrate their activity as follows since 1928 (in million litas):